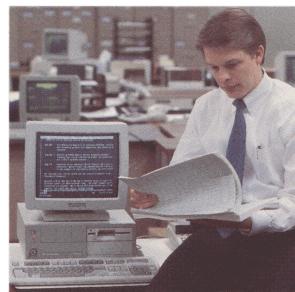


**Commodore International Limited**  
1989 Annual Report



## ***About the Company***

*Commodore International Limited, through its subsidiaries, is a fully-integrated, independent manufacturer and marketer of personal computers. Manufacturing facilities are located in North America, Europe and the Far East. Marketing is worldwide. Research is devoted to the development of innovative, competitive, superior-performance products.*

*The cover photographs depict the Company's major product lines and market segments. From left to right: professional users exploit the advanced graphics capabilities of the Amiga 2000 Series; business and government customers turn to Commodore PC compatibles for high-performance, cost effective solutions; and schools around the world use the Amiga 500 or C64/C128D computers to enrich learning experiences.*

## ***Contents***

1	<i>Financial Highlights</i>
2	<i>Letter to Shareholders</i>
6	<i>Professional Products</i>
10	<i>Consumer Products</i>
12	<i>Production of Annual Report</i>
13	<i>Financial Report</i>
27	<i>Report of Independent Public Accountants</i>
28	<i>Corporate Information</i>

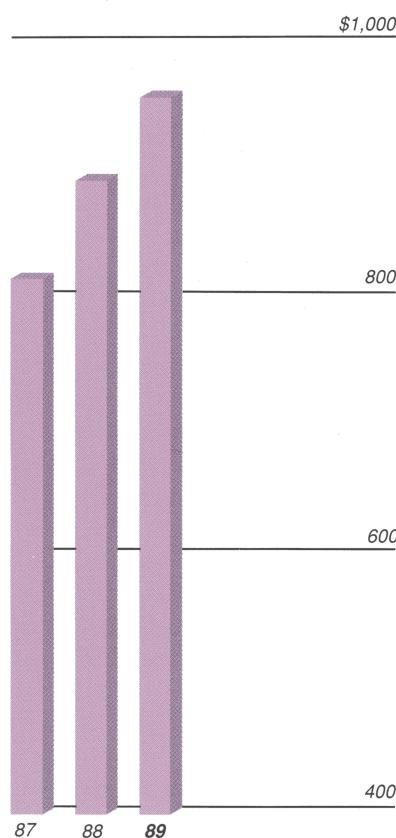
## Financial Highlights

(Dollars in Millions, Except Per Share Data)

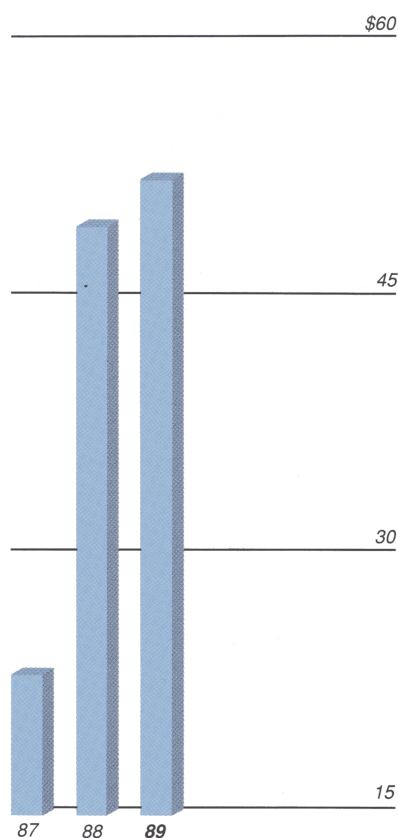
Year Ended 30 June	1989	1988	1987
<i>Net Sales</i>	\$939.7	\$871.1	\$806.7
<i>Income Before Extraordinary Item</i>	\$ 50.1	\$ 48.2	\$ 22.6
<i>Net Income</i>	\$ 51.3	\$ 55.8	\$ 28.6
<i>Shareholders' Equity</i>	\$240.3	\$200.3	\$145.0
<i>Average Shares Outstanding (Millions)</i>	32.4	31.8	32.1
<i>Quarterly Income (Loss) Before Extraordinary Item Per Share</i>			
<i>1st Quarter</i>	\$ 0.30	\$ 0.16	\$ 0.12
<i>2nd Quarter</i>	\$ 1.20	\$ 0.69	\$ 0.50
<i>3rd Quarter</i>	\$ 0.38	\$ 0.28	\$ 0.03
<i>4th Quarter</i>	\$ (0.32)	\$ 0.38	\$ 0.06
<i>Year</i>	\$ 1.55(a)	\$ 1.51	\$ 0.71

(a) Total for year differs from sum of the quarters due to antidilutive effect of stock options and warrants in fourth quarter.

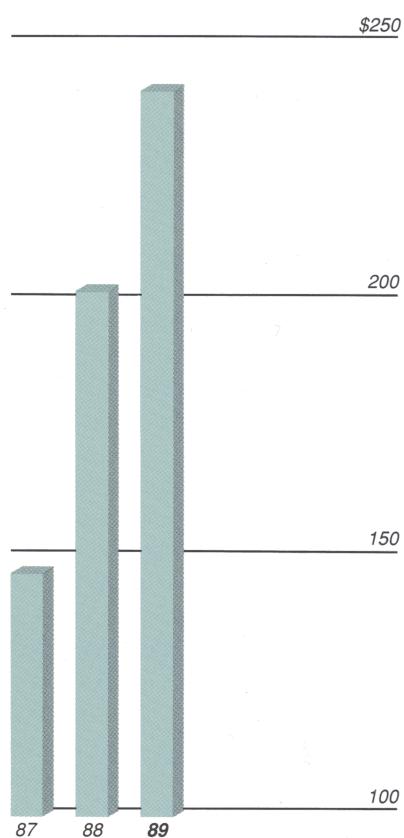
**Net Sales**  
(in millions)

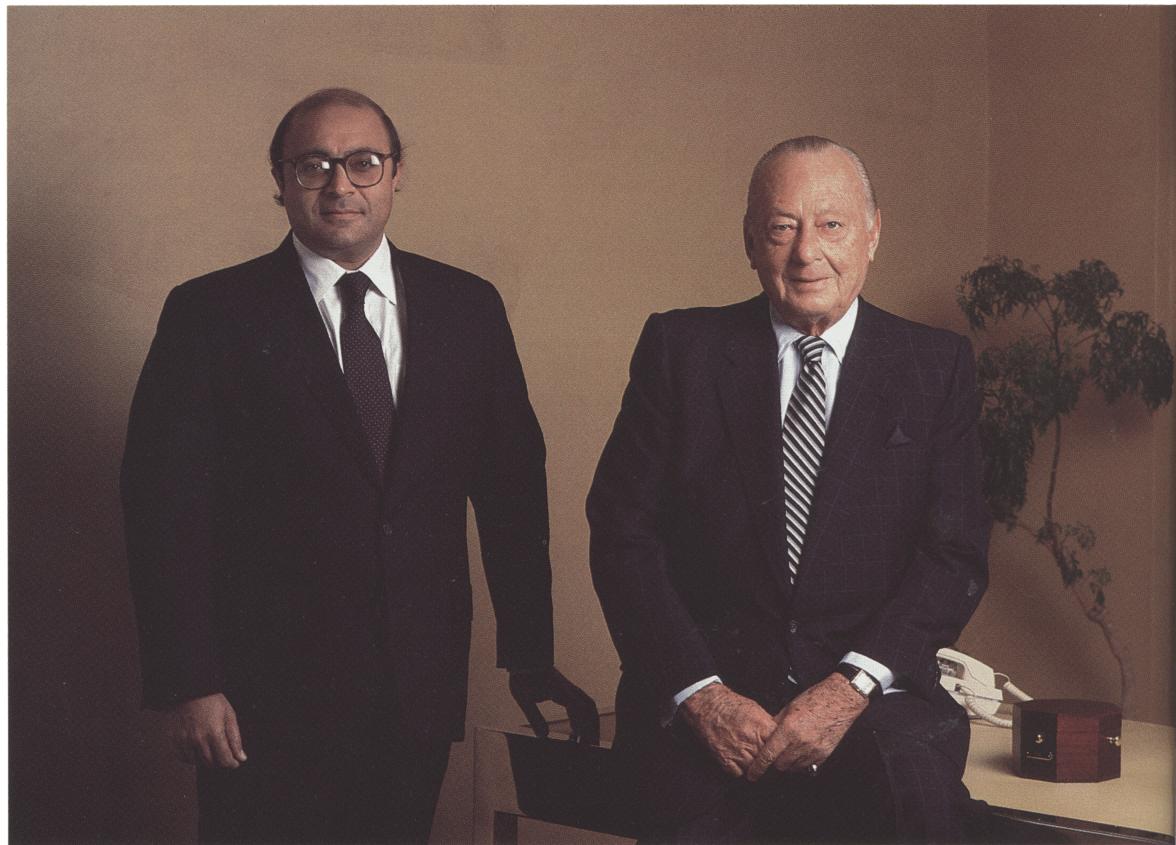


**Income**  
(before extraordinary item, in millions)



**Shareholders' Equity**  
(in millions)





Mehdi R. Ali

Irving Gould

## **Letter to Shareholders**

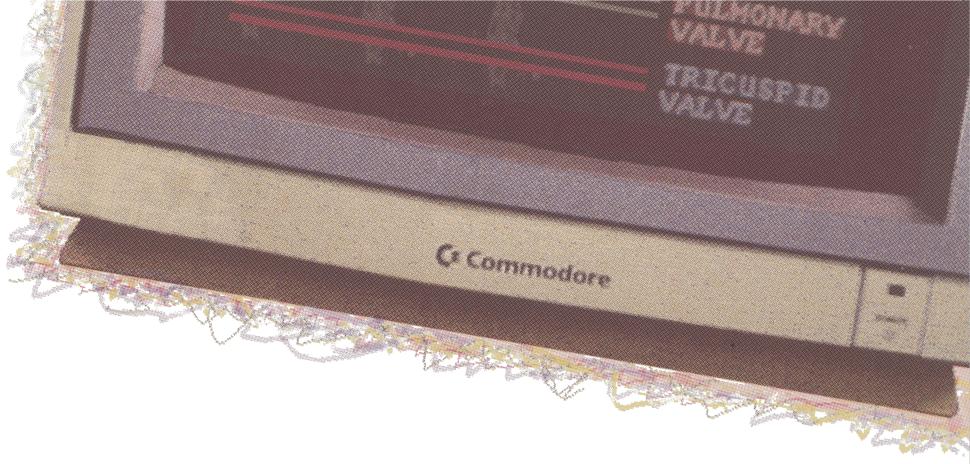
For Commodore International Ltd., 1989 was a year of transition and investment in the future. While we continued to generate increasing sales and income before extraordinary item, we also took several steps to expand beyond our traditional business in the consumer sector, and establish the foundations required to position the Company as a leading supplier to customers in business, government and education. Toward this goal, management was strengthened through the recruitment of many experienced and accomplished executives, while our sales forces were reorganized into separate groups focusing on the consumer and professional sectors. New products were introduced, marketing and research and development expenditures were increased, technical support and quality control were strengthened, and manufacturing facilities were significantly upgraded. These actions reflect our commitment to strengthen Com-

modore's presence in professional markets, while enhancing our leadership position in the consumer sector.

### **Financial**

During the year, Commodore's sales rose to \$939.7 million, or 8% higher than sales of \$871.1 million in fiscal 1988. Income before extraordinary item increased to \$50.1 million or \$1.55 per share, slightly higher than the \$48.2 million, or \$1.51 per share reported last year. Extraordinary benefits from tax-loss carry-forwards of \$1.2 million in fiscal 1989 and \$7.6 million in fiscal 1988 resulted in net income of \$51.3 million or \$1.59 per share in 1989 and \$55.8 million or \$1.75 per share in the prior year.

The growth in earnings helped to further strengthen the Company's financial position, as equity increased to \$240.3



million at year-end, from \$200.3 million at the prior year-end. The Company also generated substantial cash flow from operations that helped to increase our cash position from \$78.0 million at year-end 1988 to \$114.1 million this year.

In the June quarter, however, Commodore's string of twelve consecutive profitable quarters was interrupted. The adverse impact of a rapidly-strengthening dollar on the Company's sales and margins, coupled with softness in consumer markets and higher operating expenses, resulted in a loss for the quarter. We are working to offset the impact of these factors through increased penetration of the professional sector, enhanced marketing programs, and new product introductions.

#### **Products And Markets**

The growth in Commodore's revenue resulted from higher sales of our Amiga and MS-DOS PC product lines, which more than offset softness in sales of the consumer-oriented C64 and C128D computers.

The Amiga product line now accounts for over 45% of total Company sales, up from 41% last year and less than 20% in fiscal 1987. Sales of both the consumer-oriented Amiga 500 and the professional Amiga 2000 Series machines have increased during the year, with growth supported by the introductions of the Amiga 2000HD, the Amiga 2500 and the 80286 AT-compatible bridgeboard, which allows the user to operate both MS-DOS and Amiga-DOS software. With the computer's increasing popularity, sales surpassed the important "one million unit" milestone several months ago. The growing installed base prompted writers to design substantial new software for the

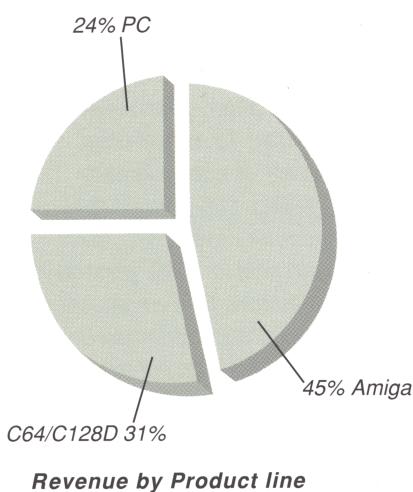
Amiga, and over 2,000 titles have been published.

Our MS-DOS PC compatible line has also shown substantial growth, rising from 20% of Commodore's total sales in fiscal 1988 to 24% of sales this year. The product line includes a range of computers incorporating 8088 to 80386 technology, and the new "Professional Series-III" 80286 machines released this year have been very successful due to exceptionally attractive price/performance characteristics.

Sales of Commodore's C64/C128D product line declined moderately during the year, but these computers fill an important and sizeable market niche as an entry-level home computer. With an installed base exceeding 10 million units and a software library of approximately 10,000 published titles, they remain the most popular computers ever built. Over 1 million units were sold in 1989, generating 31% of Commodore's total revenues.

Geographically, Europe continued as Commodore's largest market, contributing 69% of worldwide sales. In many European markets, we have a strong professional, as well as consumer market image, and a solid base of dealers, distributors, and direct customers. In Germany, our largest single national market, Commodore has a leading position in the professional sector and over 80% of the consumer sector.

While we experienced substantial sales growth in many of our European markets, advances in the U.K. were particularly noteworthy with sales more than doubling in fiscal 1989. Exceptional growth was also generated by Com-



**Revenue by Product line**

modore subsidiaries in the Netherlands, France, and Spain, reflecting increasing demand for a range of Commodore products. We feel that Commodore is well-positioned to take advantage of future growth and establish a strong position in several European markets.

Our second largest geographic market, North America, contributed 24% of Commodore's worldwide revenue. Sales in North America rose nominally, reflecting growth in Amiga and PC sales offset by a decline in sales of C64/C128D computers. In Canada, Commodore solidified its second place position in unit market share, while in the U.S., a new management team developed a comprehensive marketing program to increase penetration of all market sectors.

Our third major market was Australia/Asia Pacific, where sales increased by 16% and now account for 7% of Commodore's worldwide revenue.

#### **Management**

To aid in the achievement of our long-term strategy, we have extensively recruited experienced executives who have the ability to help attain our ambitious targets for the 1990's. During the year, we made major progress in this area.

This past February, Mehdi R. Ali was named President of the Company, expanding the role he had been playing in restructuring Commodore into a major competitor in the microcomputer industry. As a Managing Director of the investment banking firm Dillon, Read & Co., Inc., Mr. Ali had been a Director and special advisor to Commodore.

Recognizing the need for managerial experience in marketing a proprietary operating system to the professional com-

munity, Harold D. Copperman was recruited as President of Commodore's U.S. company. Formerly the General Manager of a major competitor's Eastern U.S. operations, Mr. Copperman has extensive experience in education, corporate and government marketing.

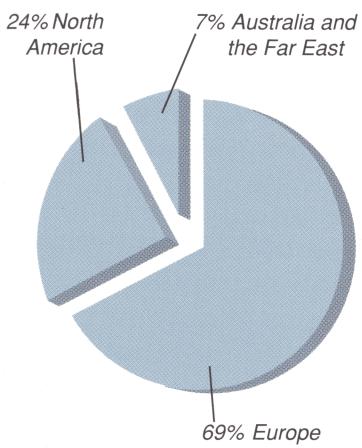
To coordinate marketing efforts overseas, Peter Bayley was named Vice President, International Marketing. In his previous position as U.K. Marketing Director for a leading competitor, Mr. Bayley helped that company build a strong leadership position in Britain.

Recently, Peter Kaiser was named General Manager of Germany, our largest national market. A well-known figure in the German personal computer industry, Mr. Kaiser was previously the Sales Director of a major competitor in Central Europe.

Managers with similar backgrounds were recruited to direct other markets including Scandinavia, Australia/Asia Pacific, Benelux, Switzerland, and Italy. This influx of talent should help us develop the successful marketing strategies required to support sales of Commodore products worldwide.

#### **Research and Manufacturing**

During the year, we increased our research and development spending by 25%, to both support our existing product base and to further expand our product lines. Significant efforts were devoted to the development of a range of new Amiga and PC compatible computers, which are expected to be introduced during fiscal 1990.



**Revenue by Sales Territory**

To improve product quality and operating efficiency, several steps were taken this year to optimize our manufacturing operations. We installed new automatic insertion production lines in our Hong Kong assembly facility, resulting in increased capacity and improved quality control. This enabled us to close our Taiwan facility and consolidate production in Hong Kong, thus reducing overall manufacturing expense.

Further, we made substantial investments to upgrade our Norristown, Pennsylvania semiconductor foundry, and announced plans to replace our current manufacturing plant in West Germany with a new facility designed to increase the Company's manufacturing efficiency and flexibility.

To direct these efforts, we have appointed Brian Weyman as Vice President of Manufacturing and Purchasing. Mr. Weyman was formerly in charge of the manufacturing operations of a major multi-national technology company and he brings Commodore considerable manufacturing and purchasing experience.

#### **Conclusion**

Commodore's strength over the past several years has been in the consumer sector, reflecting the continuing popularity of the C64/C128D computer and more recently, the growing demand for the Amiga 500. A few years ago, the Company began to move into the professional sectors, initially by selling MS-DOS PC compatibles. This effort was successful and sales of our professional products have continued to grow, increasing by over 25% in fiscal 1989.

The greater penetration of professional sectors is now a top corporate goal for Commodore. These markets, worldwide, are expected to provide growth opportunities in the future. A solid presence in this sector would complement our already strong position in the consumer channel, thereby diversifying our customer base and increasing our market coverage. A growing presence in both sectors is key to building Commodore into a major competitor in the global microcomputer industry.

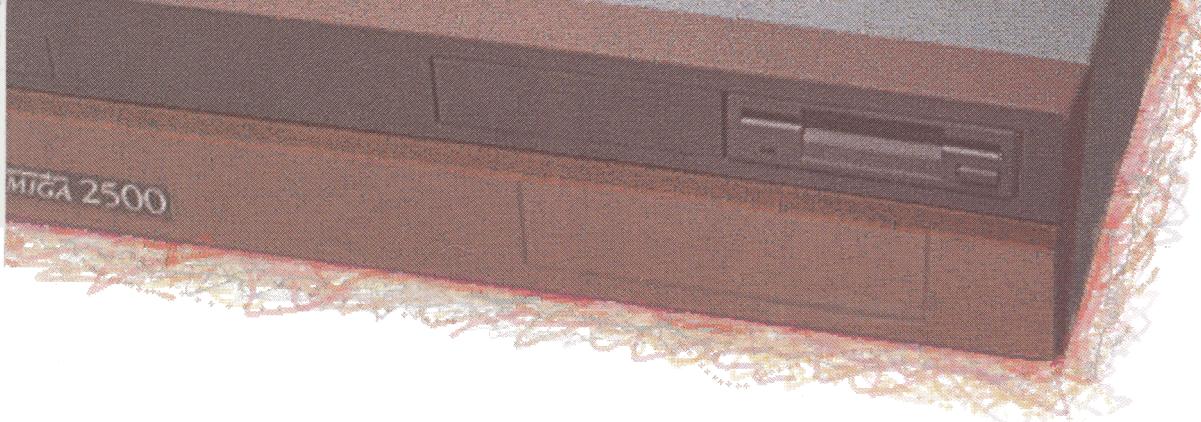
This year, we have taken steps to lay the foundation required to achieve our future objective. In every key area - management, marketing, research and development, production, technical support and quality control - we have devoted increasing resources and have taken significant actions to better address the needs of an expanded customer base.

The growing emphasis on professional products, and our enhanced efforts in the consumer sector, are designed to help Commodore move toward establishing strong professional and consumer businesses in all of our worldwide markets.

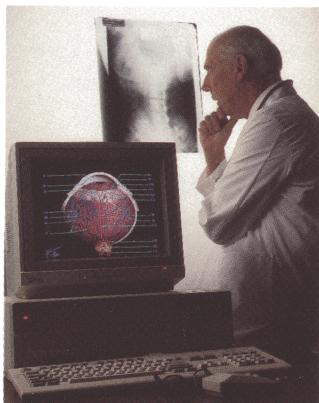
**Irving Gould**  
Chairman of the Board  
and Chief Executive Officer

**Mehdi R. Ali**  
President

September 29, 1989



## Professional Products



Doctors and scientists  
use the Amiga's sharp  
color graphics to aid in  
diagnostics and research.

Commodore has been moving to take advantage of opportunities in the professional sector. Over the past year, these efforts have driven Commodore's growth in revenue, as sales of professional products - Amiga 2000 Series computers and AT-compatible MS-DOS PC's - have increased by 25%, from approximately \$150 million in fiscal 1988 to close to \$200 million this past year. Given the strength and potential growth of this sector, Commodore has reorganized its sales structure, product line and operations to better serve the requirements of professional users in education, business and government.

### Products

Commodore has developed two product lines, each targeted to address specific customer needs. First, for those who require advanced graphics, video and audio capabilities for desk-top publishing, desk-top video, multimedia presentations, CAD/CAM/CAE or other creative computer applications, Commodore offers the Amiga 2000 series of computers. For more standard business applications, Commodore provides a range of MS-DOS PC compatibles with attractive price/performance characteristics. Both the Amiga 2000 and the PC lines have been carefully designed to meet the varied, but exacting requirements of professional users.

The Amiga 2000 series derives its advanced audio, graphic and video capabilities from a specialized design in which proprietary Amiga chips act as co-processors and effectively aid the central processing unit - a Motorola 68000 series CPU - in managing a variety of functions.

With this unique design, the Amiga is the first personal computer that can provide true multi-tasking - the ability to handle several tasks at the same time. For example, on the Amiga a business user can calculate a spread sheet, prepare graphics and print a report - simultaneously. The Amiga also has enhanced graphics and full video-interlacing capabilities, which enable the computer to interface with video tape, adding headings, charts, graphs or animation to video presentations. Further, with the addition of a bridgecard, an Amiga can run MS-DOS, and in some cases OS/2 applications.

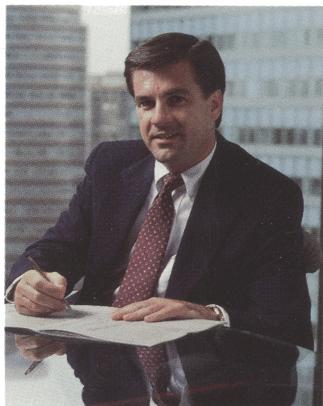
To maximize flexibility, the Amiga computers are designed with "open architecture" which allows customers to build upon their initial system, easily adding additional memory and other peripheral equipment to take advantage of the full capabilities of Amiga technology.

To more fully address customer requirements, the line was expanded this year beyond the Amiga 2000 - the original Amiga designed specifically for professional users - to include the Amiga 2000HD, the Amiga 2500 and the UNIX-compatible Amiga 2500 UX, which has already been introduced in special test units.

The Amiga 2000HD was designed for users who desire a pre-configured Amiga built and supported by Commodore, and features a 40 MB high-performance hard disk drive, an autoboot hard disk controller and pre-installed software.

The Amiga 2500 is a powerful computer designed for a wide range of profes-

"Our exciting technology is being introduced by an experienced, new sales and marketing team that understands our markets and will reinforce the quality of our entire operation."



Harry Copperman,  
President  
Commodore U.S.A.



Advertising agencies and graphics firms rely on the Amiga to help design colorful brochures, TV commercials and magazine ads.

sional, high-speed, multi-tasking applications in science, business, engineering, graphics and education. It features a co-processor card with a 14 MHz Motorola 68020 microprocessor, 2 MB of 32-bit RAM, a math co-processor and memory management unit.

The latest addition to the Amiga 2000 series is the Amiga 2500 UX, a powerful but economical workstation which represents Commodore's first entry into the rapidly-growing UNIX market. The computer features a 100 MB hard drive and a 25 MHz, 32-bit Motorola 68030 processor. It forms an ideal hardware platform for the powerful UNIX system V operating system.

Overall, the expanded Amiga 2000 Series provides professional users with versatility and capabilities not available in other computers. Byte Magazine notes the Amiga "is a natural for desktop video",

while Computer Graphics World says "the Amiga packs a substantial graphics punch". INFO magazine simply calls the Amiga "the most powerful - and, more importantly, the most useful personal computer today".

In contrast to the more specialized nature of the Amiga computers, Commodore's MS-DOS PC compatibles are positioned as highly reliable, practical and economic alternatives for traditional MS-DOS-based applications. Foremost within Commodore's line are the "Professional Series III" products - small footprint PC's with pre-installed software and Commodore's proprietary AUTOCONFIG feature, which automatically configures expansion cards.

The Company plans to extend its product line further with the introduction of several 80386-based computers in fiscal 1990.



The Amiga easily blends audio, video, animation and graphics in a growing number of multi-media applications.



Commodore's PC compatibles provide high-performance, cost-effective solutions to customers in the business and government markets.



Complex industrial designs are created on the Amiga 2000 Series computers.

Commodore's PC's have been well-received by professional users, and have been highly acclaimed by leading computer publications.

#### Marketing

To effectively market these products, Commodore is restructuring and expanding its sales and marketing forces and devoting more resources to the professional channel. In most countries, dedicated sales teams are being developed with sole responsibility for the professional market. Within these teams, further specializations are being established, with separate groups concentrating on specific sectors like education and government, or on vertical market niches like video or music.

Commodore's sales teams generally sell through selected dealers who are capable of providing end-users with the necessary long-term technical assistance and

support. Commodore sales personnel work with the dealers, providing the training needed to effectively sell Commodore products into the target market sectors.

With the combination of attractive products and more effective marketing, Commodore is making important inroads with professional customers worldwide. The Amiga 2000 Series has been sold effectively into a broad range of market sectors including desktop publishing, desktop video, music, CAD/CAM/CAE, and other applications requiring strong graphics capabilities. For example, in television, Amiga computers have been used by stations from Norway to Australia for animation and story-boarding, and to gather information and generate on-the-air weather forecasting charts. Video applications



"By dedicating our sales forces to specific channels and market sectors, we can better achieve our goals of further penetrating the business, education, government and home computer markets."



Peter Kaiser,  
General Manager  
Commodore Germany

include the production of training videos and animation sequences by a variety of customers, including Britain's Ministry of Defense. In the medical field, the Amiga is employed worldwide in a range of technical applications which require advanced graphics capabilities. For example, in Vienna, the Neurosurgical University Clinic uses the Amiga to detect medical anomalies, while in the U.K., the Amiga is employed in a four-dimensional ultrasonic imaging system by the Imperial College of Science, Technology and Medicine. Government applications include the utilization of the Amiga in a range of mission-critical assignments by the U.S. Department of Defense.

The Amiga is also developing a strong niche in the higher education market sector. The computers are used by major universities in many of our markets for a range of applications including computer graphics and art, technical training, design and specialized video functions. At the Stanford Linear Accelerator Center, students and scientists take advantage of the Amiga's multi-tasking and graphics capabilities, using the computer as a low end technical workstation, while in France, at the University of Valenciennes, students learn animation techniques on the Amiga.

Commodore's MS-DOS PC compatibles have been marketed as cost-effective systems for businesses and government agencies. In Germany, where Commodore is well-established in the professional market, major companies like Thyssen, BMW, the German Employee Union and the Federal Railway of Germany utilize Commodore PC's for their day-to-day business requirements. In the government sector, customers include

the German Parliament and the City of Berlin.

In other countries, Commodore is beginning to make in-roads into the professional sector. Air Canada has purchased Commodore PC's for its own operations, following a successful employee purchase plan program. In New Zealand, both the Tower Corporation, a large insurance and financial company, and the New Zealand Post, Ltd., have installed Commodore PC's for their business operations.

PC's have also been sold into the education sector, where universities, and in some instances high schools and trade schools, utilize PC's for both teaching and administrative work. For instance, in Canada, the Ontario Ministry of Education has provided grants to subsidize the purchase of both PC-10s and Amiga 2000s for the province's classrooms, and linked them via LANs to PC 40-III's, which act as central file servers.

### Conclusion

In summary, worldwide demand from professional users has been growing rapidly, and professional products are becoming a larger portion of Commodore's overall business. To take maximum advantage of this opportunity, we have acted to expand and enhance our product development and further refine our marketing efforts. We believe these actions will help to support increased penetration of the professional sector, to the long-term benefit of both Commodore and its current and future customer base.



## Consumer Products

"We are already a significant force in each of the major world markets.... Commodore is well positioned to take advantage of the 1992 changes in Europe and grow into a leadership position in the worldwide micro-computer industry."



Peter Bayley  
Vice President,  
International Marketing

Commodore's traditional stronghold has been in the consumer sector, where the continuing strength of the C64/C128D computers has been augmented by the growing popularity of the Amiga 500, and increasing demand from home users for XT-compatible MS-DOS PCs. The three product lines together accounted for over \$700 million of sales in fiscal 1989.

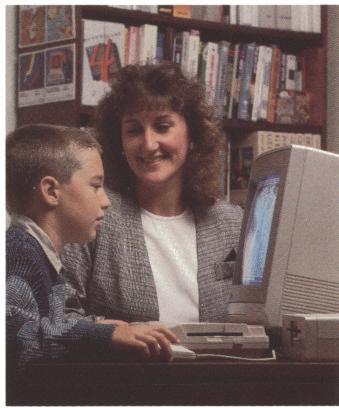
During the year, for the first time, revenues from the Amiga 500 surpassed those of the C64/C128D product line, establishing the Amiga as Commodore's pre-eminent home computer. It is positioned in the marketplace as the "ultimate home computer", and features the advanced proprietary capabilities of the professional Amiga series, but in a smaller consumer package. The computer is powered by the Motorola 68000 central processing unit and offers the home user exciting possibilities in graphics, color, video, animation, stereo sound and multi-tasking, a combination of capabilities that is truly unique within the consumer sector.

With a wide variety of visually exciting software, the Amiga 500 is ideal for children or adults interested in graphics-based educational programs, advanced home/office productivity functions, arcade-style video games and new computer-based creative activities involving home video, music and animation. For example, future Hollywood directors can use the Amiga 500 to script, edit, and add special animated effects to create their

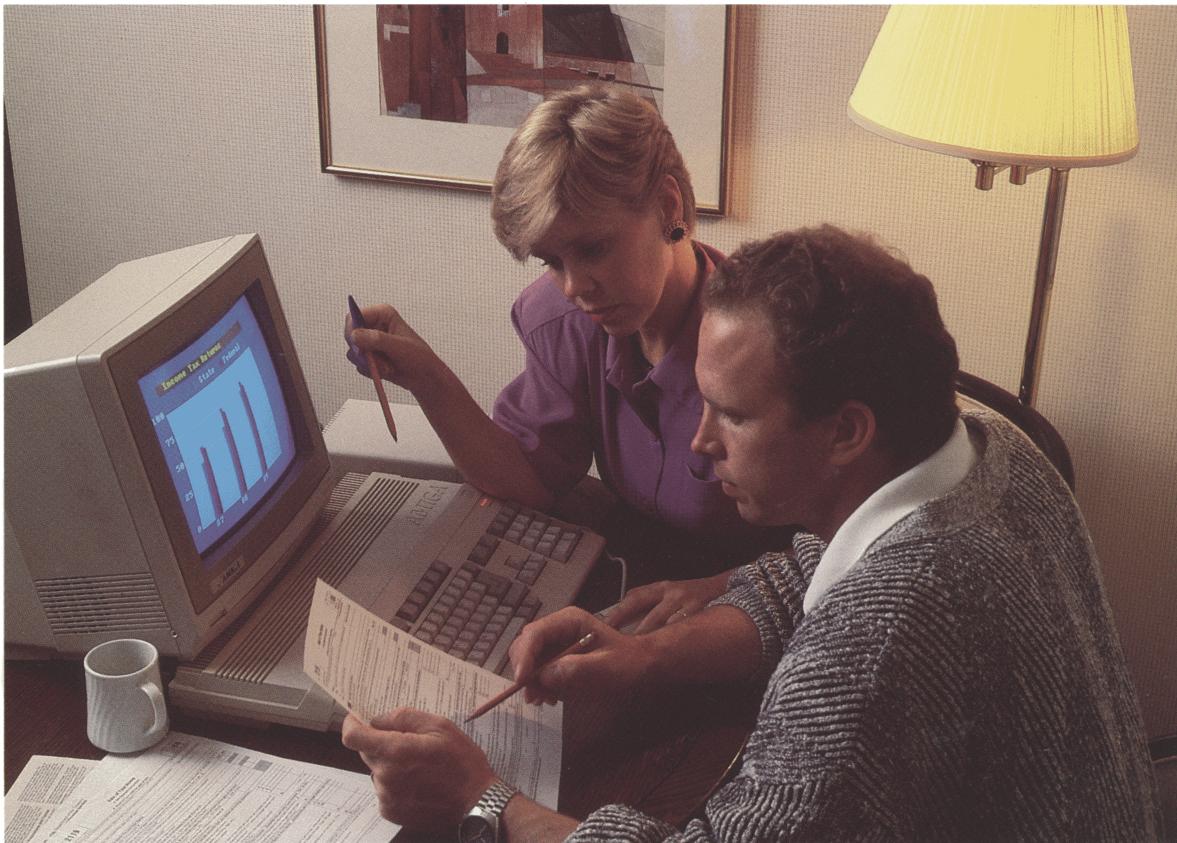
own home video productions, while those interested in music can follow the lead of world famous musicians, who use the Amiga to work out new arrangements and compose new tunes.

While the Amiga is positioned as an advanced home computer, the C64/C128D computers are marketed as economically-priced, entry-level color computers for video games as well as educational and home/office applications. Introduced in 1982, the C64 family has become the most popular line of computers in the world, with an installed base of over 10 million units and a software library of over 10,000 published titles. Although sales have softened since their peak in the mid-1980's, the computers are still popular and over 1 million units were sold in fiscal 1989. Their continuing appeal reflects strong price/performance characteristics and the wide range of applications - video games, educational software, and home office programs - that they effectively provide to the home user.

Commodore's XT-compatible computers, which just a short time ago were standard for professional applications, are now more of a consumer product. They are sold primarily to a growing market of customers who require a home office computer to handle word processing, spread sheet, and other productivity-oriented applications.



The Amiga 500 enriches learning experiences in schools around the world.

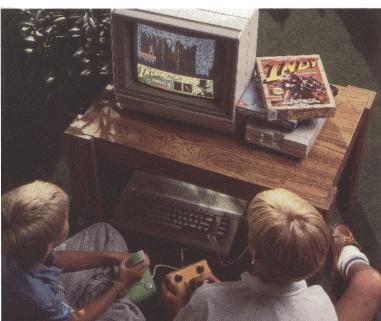


The versatile Amiga 500 is ideal for perfecting home video skills as well as running a range of home office applications.

Commodore is also initiating programs to market its consumer products to elementary and high schools, with the computers positioned as practical, versatile alternatives to higher-priced machines. These efforts should help to re-establish Commodore in this critical market sector, where students often gain their first experience with microcomputers.

#### Conclusion

We remain committed to preserving and enhancing our strong position in the consumer sector, and to this end, we have been and will continue to increase our marketing and product development efforts.



Commodore's C64 enhances the level of home entertainment.

"In the Netherlands, our sales have more than doubled, and with the new products anticipated in 1990, we are confident of achieving strong future growth."



Bernard Van Tienen,  
General Manager  
Commodore Netherlands



### **Production of the Annual Report**

Commodore's 1989 Annual Report was designed and produced with the aid of Amiga 2500 and PC 40-III computers. The Amiga's graphics and desktop publishing capabilities helped to enhance the creative efforts of the design team and reduce the time devoted to routine tasks.

Design-related work was accomplished through a variety of specialized software. To prepare the artwork in the front sections of the report, black and white photographs were digitized into the Amiga with Digi-View Gold software and then painted with Digi-Paint 3. To create the globe on the cover and to prepare the charts and graphs, the designer used Deluxe Paint III and Professional Draw. Until recently, similar artwork was done by hand, a time-consuming process which limited the user's flexibility in selecting or adjusting color schemes.

The editing of text was performed on the PC40-III for the financial section, and on the Amiga for the front section of the report. Type, page layouts and the positioning of copy were accomplished using Professional Page software, and the final version was transmitted directly to automated typesetting equipment. Working under tight deadlines, intermediate steps were minimized as film required for four-color plates was prepared, and last minute changes were made, directly from the Amiga's input.

Designer Michael DeVoursney praised the Amiga's graphics and pre-press capabilities. He had become familiar with the computer's advanced capabilities as a student, while studying computer graphics at the New York Institute of Technology, and thus was not surprised to find the Amiga earning a growing reputation in desktop publishing and graphic design.



## ***Financial Report***

### ***Contents***

<i>Financial Review</i>	14
<i>Five-Year Comparison of Selected Financial Data</i>	16
<i>Consolidated Statements of Operations</i>	17
<i>Consolidated Balance Sheets</i>	18
<i>Consolidated Statements of Shareholders' Equity</i>	19
<i>Consolidated Statements of Cash Flows</i>	20
<i>Notes to Consolidated Financial Statements</i>	21
<i>Capital Stock Information</i>	27

### **Sales**

*Commodore International Limited manufactures and markets personal computers to home, education, business and professional users around the world. The Company has three product lines: the Amiga line; MS-DOS PC compatibles; and the C64/C128D line. The Company's net sales increased 8% in fiscal 1989 to \$940 million compared with \$871 million in fiscal 1988 and \$807 million in fiscal 1987.*

*Unit sales of Amiga products increased 19% in fiscal 1989. Revenues of the Amiga product line increased 15% in fiscal 1989 as sales of the lower priced Amiga 500 accounted for most of the unit increase. Amiga sales accounted for 45% of net sales in fiscal 1989, compared with 41% in fiscal 1988 and less than 20% in fiscal 1987. The growth in this product line reflects continued acceptance of the A500 model in the home and education markets and the A2000/A2500 models in the education, business and professional markets. The total installed base of Amigas is in excess of one million units.*

*Unit sales of MS-DOS PC compatible products increased 38% in fiscal 1989. Revenues increased 41% in fiscal 1989 reflecting an increased mix of higher priced products. PC compatible products accounted for 24% of net sales in fiscal 1989 compared with 20% in fiscal 1988 and 10% in fiscal 1987. PC compatible products include the PC 10 and PC 20 for home/office users which are XT compatible; and the AT compatible PC 30 and PC 40 for more demanding business applications.*

*The C64/C128D product line continues as a leader in the entry level computer market with sales of approximately one million units in each of the fiscal years 1989 and 1988. Revenues declined 15% in fiscal 1989 due primarily to price reductions on bundles and peripherals and the impact of currency fluctuations as discussed below. C64/C128D products accounted for 31% of net sales in fiscal 1989 compared with 39% in 1988 and 70% in 1987.*

*European markets remained the Company's strongest group representing 69% of revenues in fiscal 1989. Net sales in Europe increased 10% in fiscal 1989. Sales in North America and Asia/Australia increased 4% in fiscal 1989 and accounted for 31% of net sales.*

### **Fiscal 1989 and 1988**

*In fiscal 1989, the growth in Amiga and PC sales more than offset the decline in the C64/C128D group. The strengthening of the U.S. dollar versus European currencies had an unfavorable impact on sales. The dollar value of sales for fiscal 1989 would have been approxi-*

mately \$31 million higher if prior year exchange rates had been in effect. During the fourth quarter of fiscal 1989 the dollar strengthened significantly against major European currencies. The dollar value of sales for the fourth quarter of fiscal 1989 would have been approximately \$17 million higher if prior year fourth quarter exchange rates had been in effect. Since a substantial portion of the Company's sales are denominated in European currencies, reported U.S. dollar sales will continue to be affected by the strengthening or weakening of the U.S. dollar versus European currencies. The strong sales and profits in the second quarter of each year reflect the seasonal impact of Christmas.

Gross margin was \$299 million or 32% in fiscal 1989 compared with \$268 million or 31% in fiscal 1988. The increase in gross margin during the first three quarters of fiscal 1989 resulted principally from a mix of higher margin Amiga products and increased sales volumes. In the fourth quarter of fiscal 1989, the Company experienced a reduction in gross margin as changes in foreign currency exchange rates reduced reported sales but had only a small favorable impact on product costs, due to the delayed impact and relatively limited strengthening of the U.S. dollar versus currencies of Far Eastern countries where a large portion of components and peripheral products are sourced. The future effects of foreign currency exchange rate fluctuations on gross margins are uncertain.

Operating expenses for fiscal 1989 totalled \$211 million, or 22% of sales, compared with \$184 million, or 21% of sales, for fiscal 1988. The dollar increase in operating expenses consisted primarily of advertising and marketing expenses which increased 24% in fiscal 1989 to develop certain markets and support increased sales. General and administrative expenses increased 11% and research and development expenditures increased 25%. In fiscal 1989, net interest expense declined from the prior year to \$13 million due to increased interest income from short-term investments. In fiscal 1989, other expense was \$14 million due primarily to \$9 million of realized currency exchange losses. In fiscal 1988, other income was \$1 million and included \$4 million of realized currency exchange gains. As a result of the increase in other expense, fiscal 1989 pretax income was \$61 million, a 10% decrease from 1988 pretax income of \$68 million. In fiscal 1989, the effective tax rate was 17% versus 29% in fiscal 1988, due to reduced levels of income in certain European countries with high tax rates. Fiscal 1989 income before extraordinary item was \$50 million, or \$1.55 per share, an increase of 4% from fiscal 1988 income before extraordinary item of \$48 million, or \$1.51 per share. After utilization of net operating loss carryforwards of \$1 million in fiscal 1989 and \$8 million in fiscal 1988, net income was \$51 million, or \$1.59 per share in fiscal 1989, compared with \$56 million, or \$1.75 per share in fiscal 1988.

## Fiscal 1988 and 1987

Net sales for fiscal 1988 were \$871 million, an increase of 8% from fiscal 1987. Growth in Amiga and PC sales offset a decline in sales for the C64/C128D group. The strengthening of European currencies versus the U.S. dollar had a favorable impact on sales. The dollar value of sales for 1988 would have been approximately \$67 million lower if 1987 exchange rates had been in effect.

Gross margin was \$268 million or 31% in 1988 compared with \$212 million or 26% in 1987. The increase was due to a favorable mix of higher margin Amiga products and margin improvement programs. Operating expenses increased to \$184 million in 1988 from \$165 million in 1987. Advertising and marketing expenses increased \$25 million or 26%. General and administrative expenses decreased 5%.

Due to a significant reduction in bank debt, interest expense decreased by \$1 million to \$17 million in fiscal 1988. In fiscal 1988, pretax income was \$68 million compared with \$32 million in 1987. Fiscal 1988 income before extraordinary item was \$48 million, or \$1.51 per share compared with \$23 million, or \$.71 per share in fiscal 1987. After utilization of net operating loss carryforwards of \$8 million in fiscal 1988 and \$6 million in fiscal 1987, net income was \$56 million, or \$1.75 per share in fiscal 1988 and \$29 million, or \$.89 per share in fiscal 1987.

## Liquidity and Capital Resources

Due to profitability in fiscal 1989, the Company's cash position increased to \$114 million at 30 June 1989 from \$78 million at 30 June 1988.

Cash flows from operating activities were \$46 million in fiscal 1989. In August 1988, the Company issued \$50 million in senior notes which were used to repay bank debt and for working capital requirements. Capital expenditures increased to \$24 million in fiscal 1989 from \$10 million in fiscal 1988 and were made primarily to upgrade production facilities in the U.S. and the Far East. Total shareholders' equity increased to \$240 million at June 1989. The ratio of debt less cash to capital decreased to 19% at 30 June 1989 from 26% at 30 June 1988. The Company anticipates that its balances of cash and equivalents together with cash generated from operations and borrowing capabilities will be sufficient to meet future operating cash requirements.

## Five-Year Comparison of Selected Financial Data

Commodore International Limited and Subsidiaries  
(000's omitted, except per share amounts)

Year Ended 30 June	1989	1988	1987	1986	1985
<b>Net sales</b>	<b>\$939,700</b>	\$871,100	\$806,700	\$ 889,300	\$ 883,100
Gross profit	<b>299,100</b>	267,900	212,400	170,500	165,100
Operating expenses (1)	<b>211,000</b>	184,100	164,800	273,100	249,800
Interest expense, net	<b>13,300</b>	16,900	18,100	28,100	32,600
Other expense (income) (2)	<b>14,200</b>	(700)	(2,900)	(7,000)	7,300
	<b>238,500</b>	200,300	180,000	294,200	289,700
Income (loss) before income taxes and extraordinary item	<b>60,600</b>	67,600	32,400	(123,700)	(124,600)
Income tax provision (benefit)	<b>10,500</b>	19,400	9,800	4,200	(10,700)
Income (loss) before extraordinary item	<b>50,100</b>	48,200	22,600	(127,900)	(113,900)
Extraordinary item (3)	<b>1,200</b>	7,600	6,000	—	—
<b>Net income (loss)</b>	<b>\$ 51,300</b>	\$ 55,800	\$ 28,600	\$(127,900)	\$(113,900)
Per share data:					
Income (loss) before extraordinary item	\$ 1.55	\$ 1.51	\$ 0.71	\$ (4.08)	\$ (3.66)
Extraordinary item (3)	0.04	0.24	0.18	—	—
<b>Net income (loss)</b>	<b>\$ 1.59</b>	\$ 1.75	\$ 0.89	\$ (4.08)	\$ (3.66)
Weighted average shares	<b>32,354</b>	31,768	32,144	31,278	31,142
Financial Position—30 June					
Current assets	<b>\$547,900</b>	\$495,100	\$416,600	\$ 375,100	\$ 509,200
Current liabilities	<b>228,900</b>	246,400	220,300	243,400	413,500
Working capital	<b>319,000</b>	248,700	196,300	131,700	95,700
Total assets	<b>630,300</b>	578,500	517,500	504,900	680,800
Long-term debt	<b>158,800</b>	130,000	149,600	154,500	34,100
Total debt	<b>195,400</b>	176,500	212,700	222,000	275,200
Shareholders' equity	<b>240,300</b>	200,300	145,000	105,000	222,500

(1) Includes restructuring charges in 1985-1987.

(2) Includes foreign exchange (gains) losses.

(3) Tax benefit of net operating loss carryforward.

## Consolidated Statements of Operations

Commodore International Limited and Subsidiaries  
(000's omitted, except per share amounts)

Year Ended 30 June	1989	1988	1987
<b>Net sales (Note 1)</b>	<b>\$939,700</b>	<b>\$871,100</b>	<b>\$806,700</b>
Cost of sales	640,600	603,200	594,300
<b>Gross profit</b>	<b>299,100</b>	<b>267,900</b>	<b>212,400</b>
<i>Operating expenses:</i>			
Selling and marketing	138,500	120,100	95,300
General and administrative	45,300	40,700	42,900
Research and development (Note 1)	19,300	15,400	16,400
Amortization of acquired technology (Note 1)	7,900	7,900	7,900
Restructuring charges (Note 1)	—	—	2,300
<b>Total operating expenses</b>	<b>211,000</b>	<b>184,100</b>	<b>164,800</b>
Income from operations	88,100	83,800	47,600
Interest expense, net of interest income of \$8,000, \$4,800 and \$2,100, respectively	13,300	16,900	18,100
Other expense (income) (Note 1)	14,200	(700)	(2,900)
Income before income taxes and extraordinary item	60,600	67,600	32,400
Income tax provision (Note 2)	10,500	19,400	9,800
Income before extraordinary item	50,100	48,200	22,600
Extraordinary item (Note 2)	1,200	7,600	6,000
<b>Net income</b>	<b>\$ 51,300</b>	<b>\$ 55,800</b>	<b>\$ 28,600</b>
<i>Per share data (Note 1):</i>			
Income before extraordinary item	\$ 1.55	\$ 1.51	\$ 0.71
Extraordinary item	.04	0.24	0.18
<b>Net income</b>	<b>\$ 1.59</b>	<b>\$ 1.75</b>	<b>\$ 0.89</b>

The accompanying notes are an integral part of these statements.

# Consolidated Balance Sheets

Commodore International Limited and Subsidiaries  
(000's omitted)

<b>Assets</b>	<b>30 June 1989</b>	<b>30 June 1988</b>
<b>Current Assets:</b>		
Cash and equivalents (Note 1)	\$ 114,100	\$ 78,000
Accounts receivable, net of allowances for doubtful accounts of \$24,400 and \$30,100, respectively	179,700	168,900
Inventories (Note 1)	247,900	241,000
Other current assets	6,200	7,200
Total current assets	547,900	495,100
Property and equipment, at cost (Note 1)	161,000	144,100
Accumulated depreciation and amortization	(87,400)	(77,000)
Net property and equipment	73,600	67,100
Acquired technology (Note 1)	—	7,900
Other assets	8,800	8,400
	<b>\$630,300</b>	<b>\$578,500</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Bank debt (Note 3)	\$ 22,200	\$ 42,600
Current portion of long-term debt	14,400	3,900
Accounts payable	94,400	105,400
Accrued liabilities	52,600	49,000
Taxes payable (Notes 1 and 2)	45,300	45,500
Total current liabilities	228,900	246,400
Long-term debt (Note 4)	158,800	130,000
Deferred income taxes (Note 2)	2,300	1,800
Commitments and contingencies (Note 8)		
<b>Shareholders' Equity (Notes 1 and 5)</b>		
Capital stock, \$.01 stated value		
Authorized 90,000,000 shares		
Issued 32,431,303 and 32,349,853 shares, respectively	300	300
Contributed surplus	33,300	32,600
Retained earnings	220,100	173,300
Cumulative translation adjustment	(11,400)	(3,600)
Unearned compensation	(1,100)	(1,600)
Treasury stock—694,254 and 675,549 shares, respectively, at cost	(900)	(700)
Total shareholders' equity	240,300	200,300
	<b>\$630,300</b>	<b>\$578,500</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

Commodore International Limited and Subsidiaries  
(000's omitted)

	Capital Stock	Contributed Surplus	Retained Earnings	Cumulative Translation Adjustment	Unearned Compensation	Treasury Stock	Total
<b>Balance, 30 June 1986</b>	\$300	\$32,300	\$88,900	(\$12,400)	(\$3,600)	(\$500)	\$105,000
Net income	—	—	28,600	—	—	—	28,600
Foreign currency translation adjustments for year	—	—	—	9,900	—	—	9,900
Issuance of shares for acquisition of Amiga Computer, Inc. (Note 1)	—	800	—	—	—	—	800
Issuance of shares to an officer pursuant to employment contract (Note 5)	—	2,400	—	—	(2,400)	—	—
Cancellation of shares issued to an officer	—	(3,600)	—	—	3,600	—	—
Amortization of unearned compensation	—	—	—	—	300	—	300
Exercise of employee stock options	—	400	—	—	—	—	400
<b>Balance, 30 June 1987</b>	300	32,300	117,500	(2,500)	(2,100)	(500)	145,000
Net income	—	—	55,800	—	—	—	55,800
Foreign currency translation adjustments for year	—	—	—	(1,100)	—	—	(1,100)
Amortization of unearned compensation	—	—	—	—	500	—	500
Exercise of employee stock options	—	300	—	—	—	—	300
Purchase of treasury stock	—	—	—	—	—	(200)	(200)
<b>Balance, 30 June 1988</b>	300	32,600	173,300	(3,600)	(1,600)	(700)	200,300
Net income	—	—	51,300	—	—	—	51,300
Foreign currency translation adjustments for year	—	—	—	(7,800)	—	—	(7,800)
Repurchase of warrants	—	—	(4,500)	—	—	—	(4,500)
Amortization of unearned compensation	—	—	—	—	500	—	500
Exercise of employee stock options	—	700	—	—	—	—	700
Purchase of treasury stock	—	—	—	—	—	(200)	(200)
<b>Balance, 30 June 1989</b>	<b>\$300</b>	<b>\$33,300</b>	<b>\$220,100</b>	<b>(\$11,400)</b>	<b>(\$1,100)</b>	<b>(\$900)</b>	<b>\$240,300</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Commodore International Limited and Subsidiaries  
(000's omitted)

Year Ended 30 June	1989	1988	1987
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 51,300	\$ 55,800	\$ 28,600
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,500	26,200	30,200
Deferred income taxes	500	(800)	600
Provision for doubtful accounts receivable	5,700	6,700	15,200
Other noncash items	1,800	900	1,400
Changes in assets and liabilities:			
(A)crease in accounts receivable	(36,000)	(6,400)	(31,300)
(A)crease in inventories	(8,200)	(43,900)	14,300
(A)crease in other current assets	800	200	5,100
Increase (decrease) in accounts payable	(900)	26,400	(9,000)
Increase (decrease) in accrued liabilities	6,000	13,100	(6,400)
Increase (decrease) in taxes payable	200	400	(11,400)
Total adjustments	(5,600)	22,800	8,700
Net cash provided by operating activities	45,700	78,600	37,300
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures	(24,000)	(10,500)	(9,500)
Other investment activities	(200)	500	4,900
Net cash used for investing activities	(24,200)	(10,000)	(4,600)
<b>Cash Flows from Financing Activities:</b>			
Net short-term borrowings (payments)	(19,500)	22,000	(9,200)
Proceeds from issuance of common stock	700	300	400
Purchase of treasury stock	(200)	(200)	—
Repurchase of warrants	(4,500)	—	—
Proceeds from issuance of long-term debt	50,000	—	60,000
(Payments) of long-term debt	(6,800)	(59,600)	(70,600)
Net cash provided by (used for) financing activities	19,700	(37,500)	(19,400)
Effect of exchange rate changes on cash	(5,100)	(2,100)	3,900
Net increase in cash and equivalents	36,100	29,000	17,200
Cash and equivalents—beginning of period	78,000	49,000	31,800
<b>Cash and equivalents—end of period</b>	<b>\$114,100</b>	<b>\$ 78,000</b>	<b>\$ 49,000</b>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	\$ 20,700	\$ 21,400	\$ 13,800
Income taxes	8,700	12,000	12,400

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Commodore International Limited and Subsidiaries  
30 June 1989

## 1. Summary of Accounting Policies

Commodore International Limited is incorporated in the Bahamas. The consolidated financial statements of Commodore International Limited and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States. Within those principles, the Company's more important accounting policies are set forth below.

### Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All significant intercompany accounts, transactions and profits have been eliminated.

### Translation of Non-U.S. Currencies

Assets and liabilities recorded in functional currencies other than U.S. dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to cumulative translation adjustment in the shareholders' equity section of the consolidated balance sheets. Sales and expenses are translated at the weighted average exchange rates for the period. Foreign currency transaction gains and losses are included in income in the period in which they occur. Realized currency gains (losses) of (\$8.8) million, \$4.2 million and \$6.7 million for fiscal 1989, 1988 and 1987, respectively, were included in the consolidated statements of operations as other income (expense).

### Cash and Equivalents

The Company has included cash, overnight deposits and time deposits with maturities less than 91 days as cash and equivalents. In 1989, the Company adopted the Financial Accounting Standards Board pronouncement, Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" retroactively for fiscal 1988 and 1987.

### Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, and include material, labor and overhead. Intercompany profits are eliminated from inventory valuations. Inventories consisted of the following (000s omitted):

	30 June	
	1989	1988
Raw materials and work-in-process	\$106,800	\$110,100
Finished goods	141,100	130,900
	<b>\$247,900</b>	<b>\$241,000</b>

### Property and Equipment

Major classes of property and equipment were as follows (000s omitted):

Description	30 June		Estimated Useful Lives
	1989	1988	
Land	\$ 3,000	\$ 3,100	
Buildings and improvements	34,200	34,100	10-40 years
Machinery and equipment	92,500	77,900	3-10 years
Furniture and fixtures	11,500	11,200	3-10 years
Tooling	4,400	5,700	2-5 years
Leasehold improvements	15,400	12,100	Lease Term
	<b>\$161,000</b>	<b>\$144,100</b>	

Depreciation has been provided over the estimated useful lives of the assets using primarily the straight-line method. Expenditures for additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

### Income Taxes

The Company and its subsidiaries provide taxes on income in accordance with the tax rules and regulations of the many taxing jurisdictions where the income is earned. The income tax rates imposed by these taxing jurisdictions vary substantially. Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to income or expense items reported in one period for tax purposes and in another period for financial reporting purposes, appropriate provision for deferred income taxes is made. The Company does not provide income taxes on undistributed earnings of foreign subsidiaries which are permanently reinvested.

Investment credits and other allowances provided by income tax laws of respective countries are credited to current income tax expense under the flow-through method of accounting.

### **Revenue Recognition**

Sales are recognized when products are shipped, net of allowances for estimated returns and discounts.

### **Restructuring Charges**

Restructuring charges relate principally to facility rationalizations and include severance and other shutdown expenses.

### **Research and Development Costs**

The Company expenses all research and development costs, including software development costs, as incurred.

### **Acquired Technology**

In October 1984, the Company acquired Amiga Computer, Inc. for capital stock and cash. In fiscal 1985, 521,578 shares were issued and in fiscal 1987, 28,367 shares were issued. The acquisition was accounted for as a purchase and the excess of the purchase price over the fair value of net tangible assets acquired was classified as acquired technology and was amortized on a straight-line basis over a four-year period.

### **Per Share Data**

Per share data are calculated using the weighted average number of shares of capital stock and dilutive capital stock equivalents (stock options and warrants) outstanding during each year. The weighted average number of shares used to compute earnings per share was 32,354,000, 31,768,000 and 32,144,000 in 1989, 1988 and 1987, respectively.

## **2. Income Taxes**

The income tax provision consisted of the following (000s omitted):

	1989	1988	1987
<b>Current:</b>			
U.S. Federal	\$ —	\$ —	\$ —
Non-U.S.	<b>10,000</b>	20,200	9,200
<b>Subtotal</b>	<b>10,000</b>	20,200	9,200
<b>Deferred:</b>			
U.S. Federal	—	—	—
Non-U.S.	500	(800)	600
<b>Subtotal</b>	<b>500</b>	(800)	600
<b>Total</b>	<b>\$10,500</b>	\$19,400	\$9,800

Non-U.S. earnings before income taxes amounted to \$82 million, \$94 million and \$56 million in 1989, 1988 and 1987, respectively. Deferred taxes related primarily to differences between tax depreciation and depreciation for financial reporting purposes.

The Company and its subsidiaries are engaged in business in countries with statutory tax rates ranging from zero to approximately 64%. As a result, the Company's effective tax rate may vary year to year depending upon the operating results of individual subsidiaries. The effective tax rate was 17% in 1989, 29% in 1988 and 30% in 1987 due to profitable operations in certain European countries and losses in the U.S.

As of 30 June 1989, the Company's U.S. subsidiaries have net operating loss carryforwards of approximately \$120 million and investment and research tax credit carryforwards of \$14 million which expire in years through 2004. Certain of the Company's non-U.S. subsidiaries have net operating loss carryforwards of approximately \$67 million which expire at various dates through 1999.

In December 1988, the Company's U.S. subsidiaries received Statutory Notices of Deficiency from the U.S. Internal Revenue Service (IRS) proposing total tax deficiencies of approximately \$74 million relating to the IRS audits for the fiscal years 1981 through 1983. The Company is contesting the deficiencies and in March 1989, the Company's U.S. subsidiaries filed a U.S. Tax Court Petition denying any additional tax liability. IRS audits are continuing for periods through fiscal 1986.

Certain of the Company's non-U.S. subsidiaries are undergoing audits by their respective tax authorities for various fiscal years. In Japan and Italy the tax authorities have issued deficiency assessments and the Company is also contesting these assessments.

The Company, after consultation with its tax counsel and consideration of available net operating loss carryforwards, believes that the resolution of these audits, assessments and litigation will not have a material effect on the Company's cash flow or financial position.

Utilization of prior year tax loss carryforwards has been treated as an extraordinary item in the consolidated statements of operations.

In December 1987, the Financial Accounting Standards Board issued a pronouncement (Statement of Financial Accounting Standards (SFAS) No. 96) that would require the Company to change its method of accounting for income taxes beginning in fiscal 1991. The Company has not decided when to implement the new pronouncement, nor has it decided whether to restate prior financial statements as permitted by the Standard. Since the Company has significant net operating loss carryforwards, implementation of SFAS No. 96 is not expected to have a material effect on the Company's reported financial position or net income. However, if restatement of prior financial statements is chosen when SFAS No. 96 is adopted, the income tax benefits from net operating loss carryforwards recognized in 1989, 1988 and 1987 will be reported as a component of income taxes related to operations rather than as an extraordinary item.

### **3. Bank Debt**

The Company and its subsidiaries had short-term bank borrowings of \$22.2 million at 30 June 1989, at an average interest rate of 13.4% (1988—10.7%; 1987—13.9%). The maximum month-end short-term borrowings during fiscal 1989 were \$43 million (1988—\$72 million; 1987—\$27 million). The average month-end short-term borrowings outstanding during fiscal 1989 were \$25 million (1988—\$58 million; 1987—\$22 million) at a weighted average interest rate of 12.1% (1988—9.8%; 1987—13.7%).

As of 30 June 1989, the Company had unused short-term lines of credit of \$51 million available in various currencies which permit borrowings at floating rates which vary from country to country depending upon local conditions. In certain countries under various informal and unrestricted arrangements, the Company maintains compensating balances to support credit facilities and services.

### **4. Long-Term Debt**

(000s omitted)	30 June 1989	30 June 1988
Senior notes, 11.0% due March 1990-March 1993	\$ 20,000	\$ 20,000
Senior notes, 10.75% due March 1992-March 1995	50,000	—
Subordinated notes, 12.0% due March 1990-March 1994	40,000	40,000
Deutsche mark debentures, 7.5% due January 1992	51,300	55,200
Real estate mortgages, 5.5% to 7.0%, due in varying amounts through 2000	1,900	5,200
Capitalized lease obligations averaging 12.8% (1988-12.9%) payable in varying amounts through 2020	10,000	13,500
	173,200	133,900
Current Portion	(14,400)	(3,900)
	<b>\$ 158,800</b>	<b>\$ 130,000</b>

In May 1987, the Company issued \$20 million of senior notes and \$40 million of subordinated notes with warrants for 2,250,000 shares of capital stock to an insurance company. The warrants are exercisable at \$11.40 per share until March 1994. The Company repurchased 750,000 warrants in March 1989 for a total of \$4.5 million.

In August 1988, the Company issued an additional \$50 million of senior notes to two insurance companies.

The senior and subordinated note agreements contain various covenants which, among others, provide for the maintenance of a minimum level of net worth and contain restrictions on the amount of dividends which may be declared or paid. Under the terms of the agreements, dividends are restricted to 50% of consolidated net earnings subsequent to January 1, 1989, as defined. Currently, no dividends may be declared or paid by the Company.

Approximate annual maturities of long-term debt as of 30 June 1989 are as follows (000s omitted):

1990	\$ 14,400
1991	13,500
1992	77,300
1993	26,000
1994	20,800
Later Years	21,200
	<b>\$ 173,200</b>

## 5. Capital Stock

As of 30 June 1989, the following shares of capital stock were reserved for future issuance:

Stock Incentive Plan	2,338,491
Warrants	1,500,000
	3,838,491

The Stock Incentive Plan for Key Employees provides for certain key employees to receive grants or options to purchase up to 3,000,000 shares of the Company's capital stock. Although the Plan allows for non-qualified stock options to be granted at a price below the market value, all options have been granted at the fair market value at the date of grant except for options for 300,000 and 1,000,000 shares, respectively, granted to two officers at a price of \$7.25, which was below the fair market value at the date of the grants. Options granted under the Plan expire ten years from the date of grant and outstanding options granted before January 1, 1989 are exercisable in annual increments of 33-1/3% beginning one year from the date of grant. Options granted after December 31, 1988 are exercisable in annual increments of 20% beginning one year from the date of the grant. As of 30 June 1989, options were held by 99 employees and range in exercise price from \$6.38 to \$18.00. These options expire on various dates from February 1996 to April 1999. Options for 427,000 shares were exercisable as of 30 June 1989. Option activity during 1988 and 1989 was as follows:

	Number of Shares	Average Price Per Share
<i>Outstanding as of 30 June 1987</i>	1,004,503	\$8.24
<i>Granted</i>	278,600	9.29
<i>Exercised</i>	(39,345)	6.73
<i>Cancelled</i>	(280,990)	8.61
<i>Outstanding as of 30 June 1988</i>	962,768	\$8.50
<i>Granted</i>	1,274,000	8.96
<i>Exercised</i>	(81,450)	8.38
<i>Cancelled</i>	(233,134)	9.82
<i>Outstanding as of 30 June 1989</i>	1,922,184	\$8.65

In fiscal 1987, a grant of 300,000 shares of capital stock was made to an officer at a price of \$3,000 or \$.01 per share. The shares vest at the rate of 20% per year beginning in August 1987. If the officer leaves the Company due to a merger or other change of control, all remaining shares vest immediately. The difference between the grant price and the fair market value at the date of grant has been charged to unearned compensation in the consolidated balance sheet and is being amortized by a charge to earnings over the vesting period.

When options are exercised, the proceeds, including any applicable income tax benefit, are credited to capital stock and contributed surplus.

## 6. Leases

The Company leases certain machinery and equipment, manufacturing facilities, warehouses and administrative offices with terms expiring at various dates to 2020. Typically, the Company pays property taxes, insurance and maintenance expenses related to the leased property. The gross value of property included under capital leases as of 30 June 1989 and 1988 was \$21.3 million and \$24.4 million, respectively. The related accumulated amortization as of 30 June 1989 and 1988 was \$11.2 million and \$13.0 million, respectively. Amortization expense of property under capital leases was \$0.8 million in 1989, \$1.8 million in 1988 and \$3.4 million in 1987. Total rental expense under operating leases was \$4.9 million in 1989, \$5.5 million in 1988 and \$4.2 million in 1987.

Minimum future obligations under leases as of 30 June 1989 are as follows (000s omitted):

	Capital Leases	Operating Leases
1990	\$ 2,300	\$ 4,400
1991	1,200	2,400
1992	1,300	2,100
1993	1,300	1,300
1994	1,100	900
Later Years	28,600	700
<i>Total minimum obligations</i>	35,800	\$11,800
<i>Amounts representing interest</i>	25,800	
<i>Present value of net minimum obligations</i>		\$10,000

## 7. Geographic Segment Information

(000s omitted)	North America	Europe	Asia/ Australia	Eliminations	Consolidated
<b>1989</b>					
Sales to unaffiliated customers	\$ 224,400	\$ 649,300	\$ 66,000	\$ —	\$ 939,700
Intersegment sales	42,400	455,900	711,800	(1,210,100)	—
Net sales	266,800	1,105,200	777,800	(1,210,100)	939,700
Income (loss) from operations	(26,900)	103,500	3,000	8,500	88,100
Interest expense, net					(13,300)
Other income (expense)					(14,200)
Income before income taxes					60,600
Identifiable assets	189,400	343,600	128,100	(30,800)	630,300
Depreciation expense	7,600	4,100	4,900	—	16,600
Capital expenditures	10,100	6,700	7,200	—	24,000
<b>1988</b>					
Sales to unaffiliated customers	\$ 223,300	\$ 591,000	\$ 56,800	\$ —	\$ 871,100
Intersegment sales	88,100	469,700	627,300	(1,185,100)	—
Net sales	311,400	1,060,700	684,100	(1,185,100)	871,100
Income (loss) from operations	(23,600)	114,200	4,600	(11,400)	83,800
Interest expense, net					(16,900)
Other income					700
Income before income taxes					67,600
Identifiable assets	203,200	306,500	109,100	(40,300)	578,500
Depreciation expense	9,900	4,100	4,300	—	18,300
Capital expenditures	3,500	5,000	2,000	—	10,500
<b>1987</b>					
Sales to unaffiliated customers	\$ 255,900	\$ 512,100	\$ 38,700	\$ —	\$ 806,700
Intersegment sales	66,400	424,300	537,300	(1,028,000)	—
Net sales	322,300	936,400	576,000	(1,028,000)	806,700
Income (loss) from operations	(17,400)	62,700	(1,200)	3,500	47,600
Interest expense, net					(18,100)
Other income					2,900
Income before income taxes					32,400
Identifiable assets	210,000	256,800	74,800	(24,100)	517,500
Depreciation expense	11,200	5,900	5,200	—	22,300
Capital expenditures	3,400	3,700	2,400	—	9,500

## 8. Commitments and Contingencies

The Company and its subsidiaries are parties to a number of lawsuits. In the opinion of management, none of the lawsuits or claims will materially affect the consolidated financial position of the Company.

## **9. Quarterly Financial Information (unaudited)**

(000's omitted, except per share amounts)

<b>For the Year Ended 30 June 1989</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
Net Sales	\$ 200,200	\$ 349,000	\$ 210,200	\$ 180,300	\$ 939,700
Gross Profit	64,400	113,700	73,500	47,500 <sup>(a)</sup>	299,100
Income (loss) before income taxes and extraordinary item	13,200	48,700	15,400	(16,700)	60,600
Income tax provision (benefit)	3,600	10,500	3,000	(6,600)	10,500
Income (loss) before extraordinary item	9,600	38,200	12,400	(10,100)	50,100
Extraordinary item	—	—	—	1,200	1,200
Net Income (loss)	\$ 9,600	\$ 38,200	\$ 12,400	\$ (8,900)	\$ 51,300
Per share data:					
Income (loss) before extraordinary item	\$ 0.30	\$ 1.20	\$ 0.38	\$ (0.32)	\$ 1.55 <sup>(b)</sup>
Extraordinary item	—	—	—	0.04	0.04
Net Income (loss)	\$ 0.30	\$ 1.20	\$ 0.38	\$ (0.28)	\$ 1.59 <sup>(b)</sup>
<b>For the Year Ended 30 June 1988</b>					
Net Sales	\$ 173,900	\$ 281,700	\$ 200,300	\$ 215,200	\$ 871,100
Gross Profit	49,000	85,700	62,000	71,200	267,900
Income before income taxes and extraordinary item	6,900	30,700	13,000	17,000	67,600
Income tax provision	1,900	8,700	4,000	4,800	19,400
Income before extraordinary item	5,000	22,000	9,000	12,200	48,200
Extraordinary item	1,300	5,700	600	—	7,600
Net income	\$ 6,300	\$ 27,700	\$ 9,600	\$ 12,200	\$ 55,800
Per share data:					
Income before extraordinary item	\$ 0.16	\$ 0.69	\$ 0.28	\$ 0.38	\$ 1.51
Extraordinary item	0.04	0.18	0.02	—	0.24
Net Income	\$ 0.20	\$ 0.87	\$ 0.30	\$ 0.38	\$ 1.75

(a) Gross profit was negatively impacted by foreign currency exchange rate fluctuations (see discussion in financial review.)

(b) Total for year differs from sum of quarters due to anti-dilutive effect of stock options and warrants in the fourth quarter.

*To the Shareholders of Commodore International Limited:*

*We have audited the accompanying consolidated balance sheets of Commodore International Limited (a Bahamian corporation) and subsidiaries as of 30 June 1989 and 1988, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended 30 June 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.*

*We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.*

*In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commodore International Limited and subsidiaries as of 30 June 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended 30 June 1989, in conformity with generally accepted accounting principles.*

*Arthur Andersen + Co.*

*Philadelphia, PA  
7 August 1989*

*The Company's shares are listed on the New York Stock Exchange. The high and low quarterly common stock prices for the past two fiscal years were as follows:*

Quarters		<i>Fiscal 1989</i>		<i>Fiscal 1988</i>	
		<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
1st	(30 September)	\$13 $\frac{3}{4}$	- 10 $\frac{1}{2}$	\$10 $\frac{5}{8}$ - 7 $\frac{7}{8}$	
2nd	(31 December)	14 $\frac{1}{8}$	- 9 $\frac{1}{4}$	11 $\frac{5}{8}$ - 6 $\frac{1}{4}$	
3rd	(31 March)	18 $\frac{1}{8}$	- 13 $\frac{1}{4}$	10 $\frac{1}{2}$ - 6 $\frac{3}{4}$	
4th	(30 June)	19 $\frac{1}{4}$	- 13 $\frac{1}{4}$	13 $\frac{1}{8}$ - 9 $\frac{1}{4}$	

# **Corporate Information**

## **Board of Directors**

Irving Gould  
*Chairman of the Board*

Mehdi R. Ali  
*President*

General Alexander M. Haig, Jr.  
*President of Worldwide Associates,  
Inc. and Director of Leisure  
Technology, Inc.*

Henri Rubin  
*Executive Vice President and  
Chief Operating Officer*

Ralph D. Seligman  
*Consultant Counsel  
Graham, Thompson & Company*

Robert A. Utting  
*President  
R.A. Utting and Associates, Inc.  
Former Vice Chairman of the Royal  
Bank of Canada*

Burton Winberg  
*President  
Rockport Holdings Limited*

## **Officers**

Irving Gould  
*Chairman of the Board  
and Chief Executive Officer*

Mehdi R. Ali  
*President*

Henri Rubin  
*Executive Vice President and  
Chief Operating Officer*

Ronald B. Alexander  
*Vice President, Taxes*

Peter Bayley  
*Vice President, International  
Marketing*

Joseph C. Benedetti  
*Vice President, General  
Counsel and Secretary*

Mikio Izumi  
*Vice President, Japan*

Thomas H. Matson  
*Vice President and Controller*

Brian C. Weyman  
*Vice President, Worldwide  
Manufacturing and Purchasing*

Carden N. Welsh  
*Treasurer*

## **Executive Offices**

Commodore International Limited  
1200 Wilson Drive  
West Chester, Pennsylvania 19380

375 Park Avenue  
Suite 2109  
New York, New York 10152

## **Registered Office**

Commodore International Limited  
Sassoon House  
Shirley and Victoria Streets  
P.O. Box N-10256  
Nassau, Bahamas

## **Operating Subsidiaries and Branches**

Commodore AB  
Fagerstavaegeen 7  
Lunda Industriomrade  
Spanga, Sweden

Commodore A.G.  
Langenhagstrasse 1  
CH-4147 Aesch  
Switzerland

Commodore B.V.  
Kabelweg 88  
1014 BC Amsterdam, Netherlands

Commodore S.A.  
Principe de Vergara, 109  
28002 Madrid, Spain

Commodore-Amiga, Inc.  
1200 Wilson Drive  
West Chester, Pennsylvania 19380

Commodore Buromaschinen  
GmbH  
Lyoner Strasse 38  
Postfach 710126  
6000 Frankfurt 71  
West Germany

Ernst-Amme-Strasse 24-26  
3300 Braunschweig  
West Germany

Commodore Buromaschinen  
(Austria) GmbH  
Kinskygasse 40-44  
A1232 Vienna, Austria

Commodore Business Machines, Inc.  
1200 Wilson Drive  
West Chester, Pennsylvania 19380

Commodore Business Machines  
Limited  
3470 Pharmacy Avenue  
Agincourt, Ontario  
Canada, M1W3G3

Commodore Business Machines  
(N.Z.) Ltd.  
1-3 Parkhead Place  
Albany  
Auckland, New Zealand

Commodore Business Machines  
U.K. Limited  
The Switchback, Gardner Road  
Maidenhead, Berks  
United Kingdom

Commodore Business Machines  
(Asia Pacific) Ltd.  
2-12 Wing Kei Road  
Kwai Chung, New Territories  
Hong Kong

Commodore Business Machines  
Pty. Ltd.  
67 Mars Road  
Lane Cove  
New South Wales 2066  
Australia

Commodore Computer Norge A/S  
Postboks 109  
Okem, N-0509  
Oslo 5, Norway

Commodore Computers N.V./S.A.  
Europaalaan 74  
B-1940 St. Stevens-Woluwe  
Belgium

Commodore Data A/S  
Jens Juuls Vej 42  
DK 8260 Viby J/Aarhus  
Denmark

Commodore Electronics Limited  
Sassoon House  
Shirley and Victoria Streets  
P.O. Box N-10256  
Nassau, Bahamas

Commodore Centre  
2-12 Wing-Kei Road  
Kwai Chung, New Territories  
Hong Kong

Langenhagstrasse 1  
CH-4147 Aesch  
Switzerland

Commodore European Support and  
Coordination Company  
Kabelweg 88 1014 BC  
Amsterdam, Netherlands

Commodore France S.A.R.L.  
150-152 Av. de Verdun  
92130-Issy Les Moulineaux  
Paris, France

Commodore Italiana S.p.A.  
Viale Fulvio Testi, 280  
20126 Milano, Italy

Commodore Japan Ltd.  
Sumitomo Higashi-Shimbashi  
Building No.2  
12-7, Higashi-Shimbashi 2-Chome  
Minato-Ku, Tokyo 105 Japan

Commodore Semiconductor Group  
950 Rittenhouse Road  
Norristown, Pennsylvania 19403

## **Transfer Agents and Registrars**

Manufacturers Hanover Trust  
Company  
450 West 33rd Street  
New York, New York 10001

## **Auditors**

Arthur Andersen & Co.  
Philadelphia, Pennsylvania

## **Shares Listed**

New York Stock Exchange  
(Ticker Symbol CBU)

*Commodore and the Commodore Logo are registered trademarks of Commodore Electronics Limited. AUTOCONFIG, C64, C128 and Professional Series III are trademarks of Commodore Electronics Limited. AMIGA is a registered trademark of Commodore-Amiga, Inc. AMIGA-DOS is a trademark of Commodore-Amiga, Inc. Digi-View and Digi-Paint are trademarks of Newtek, Inc. MS-DOS and OS-2 are registered trademarks of Microsoft Corp. Motorola is a registered trademark of Motorola Inc. UNIX is a registered trademark of AT&T. Deluxe Paint III is a registered trademark of Electronic Arts Inc. Professional Draw and Professional Page are trademarks of Gold Disk Inc.*

**brought to you by  
andy finkel**